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Disclaimer

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This information has been prepared by Zero VAT LLP to assist the user in the VAT assessment of specific goods and services. However, this information must not be treated as a substitute for professional advice which should be sought in cases of doubt or unusual complexity. Zero VAT LLP cannot be held liable for any errors or omissions in the VAT assessment which may result directly or indirectly from the use of this information and all such liability is hereby expressly denied.



Introduction

The DMA recognises that many of its members have a need for support and guidance when determining whether VAT is chargeable on certain supplies. To this end we have compiled this guide to provide assistance in understanding typical issues that you may encounter and as a resource for obtaining further information and support.

Advertisers strive to achieve a good return on investment on any marketing activities. A lot of time and effort is invested in improving results through various means such as creative strategy, targeting, or efficient procurement. VAT mitigation is another effective cost-saving strategy of which both advertisers and suppliers should be aware.

A little knowledge is a dangerous thing and nowhere is this more the case than when dealing with the complexities of VAT mitigation. Handling such matters in our industry is something which often sits awkwardly as most businesses do not employ staff as VAT specialists, the VAT issues are just something that come with the territory and often land on the desk of someone who is not fully trained to deal with them.

This guide is designed to help you make informed decisions in dealing with VAT mitigation matters. It is not intended to be a general guide about VAT or to assist you in day-to-day VAT administrative tasks. These are matters which typically your own in-house finance team or accountants will deal with.

While HMRC makes a lot of material available in the public domain, many people find it hard going trying to interpret it or find the answer to a specific issue. Much of the guidance requires users to exercise judgement and make informed decisions. This inevitably leads to variations in interpretation such that two people could read the same VAT notice and come to two different conclusions. This is not helpful but it is a reality.

Our approach is to provide you with practical assistance on the issues that matter to all of us, and our industry.

The DMA can also provide you with access to professional VAT advisors who can assist you and to which you may enter in to separate commercial arrangements as required.



VAT basics

VAT introduction

Businesses over a certain turnover are obliged to register for VAT. VAT is a tax that is charged on most goods and services that VAT registered businesses provide in the UK.

There are three rates of VAT:

- Standard 20%
- Reduced 5%
- Zero 0%

Sales to which any of these rates apply are known as “taxable supplies”. The principles underlying why some goods and services are liable to 5% or 0% VAT are enshrined in the laws governing the European Union. This is intended to bring some conformity throughout the European Community with each national government being granted only limited powers to change the rates.

Standard rated sales (20%)

The standard rate is the default rate of VAT. It applies to all supplies of goods and services in the UK except those which fit into the carefully defined categories liable to 5%, or 0% VAT.

Reduced rate sales (5%)

The reduced rate applies to a defined list of goods and services. Most likely you will be familiar with the reduced rate on domestic fuel bills. There are no supplies common to the marketing and communications industry which attract the reduced rate of VAT.

Zero rated sales (0%)

Supplies which are liable to 0% VAT must fit into one of the defined categories in order to be zero rated. There are three categories which are regularly of relevance to our industry. The general headings of these categories are as follows:

- Books etc
- Certain advertising for charities
- Exports of goods

Zero rated supplies are often (incorrectly) referred to in the industry as ‘VAT exempt’ or ‘non-vatable’ but it is important to recognise the distinction between these terms.

VAT exemption

VAT exemption refers to supplies of commercial services which are not liable to VAT (e.g. insurance). This is different from zero rated supplies which are liable to VAT, albeit at a rate of 0%.

VAT exempt services are also defined by VAT law. The services provided must fit into one of the defined categories in order to be VAT exempt. The main trade sectors whose core services are VAT exempt are as follows:

- Property development – many sales and letting of land and buildings are VAT exempt
- Insurance
- Postage – relevant Post Office services only
- Betting & gaming
- Finance
- Education
- Health and welfare
- Burial and cremation
- Trade Unions and many professional bodies
- Many museums, art galleries, zoos etc.

Supplies outside the scope of VAT

'Outside the scope' is another common VAT expression. It identifies further supplies to which VAT does not apply as follows:

- Charities are often wholly or partly 'outside the scope' due to the good works which they do.
- Many transactions with overseas businesses are 'outside the scope'

Cost implications

The cost implications of paying VAT for businesses or organisations which are 'VAT exempt' or 'outside the scope' is best illustrated with an example.

Type of business or organisation	Telecoms Provider	Insurance Company	Charity
Sales/income of business or organisation are:	Taxable Supplies	VAT Exempt	Outside the scope
Cost of outsourcing a marketing campaign	£125,000	£125,000	£125,000
VAT @ 20%	£25,000	£25,000	£25,000
Total Cost	£150,000	£150,000	£150,000
Amount of VAT reclaimed from HMRC	£25,000	£nil	£nil

VAT exempt or outside the scope businesses are unable to reclaim part or all of the VAT they are charged. It just so happens that in our industry, those business sectors represent a very significant proportion of marketing spend. This includes the financial services, charity and health sectors to name a few.

The example demonstrates the cost implications since VAT effectively reduces their budget to £125,000 because the VAT element is a cost they cannot reclaim. If the supply was able to be zero rated then the advertiser can allocate the full £150,000 on pure marketing activity or achieve the same level of activity for £25,000 less.

This clearly demonstrates why an advertiser who is VAT exempt or outside the scope of VAT would benefit from being able to reduce their VAT burden.

One area where this VAT burden can be successfully reduced is in marketing and communications. There are a range of goods and services in our industry which are zero-rated and therefore suppliers should take advantage of these allowances wherever possible to reduce the cost of VAT to advertisers. For the purposes of this guide we refer to such actions as VAT mitigation.

VAT mitigation

VAT mitigation, also referred to as VAT avoidance, is legitimate and legal. After all, it is the law which determines if a supply is zero rated. The important issue is that you comply with the law.

VAT evasion is the term used to describe practices which are illegal.

Certain types of goods and services are zero rated. You may be aware for instance that certain products you buy in the high street are zero rated such as food, books or children's clothes.

Zero-rating extends to items which are commonly supplied in our industry. Predominantly this is printed matter such as leaflets, direct mail packs and catalogues and, in the case of charities, extends to some advertising services as well.

The following sections will provide guidance on core areas of VAT mitigation for our industry.

Printed matter

Zero-rating applies to printed books, leaflets etc. It does not apply when the same material is sold in alternative formats e.g. audio CD or in electronic form. In such instances, the supply is standard rated unless the zero-rating for exports applies.

The categories of zero-rated printed matter are as follows:

- Books, booklets, brochures, pamphlets and leaflets
- Newspapers, journals and periodicals
- Children's picture books and painting books
- Music (printed, duplicated or manuscript)
- Maps, charts and topographical plans

Any printed matter not on this list cannot be zero rated. Also there are numerous exceptions to the list which are not covered here.

Detailed information about the zero-rating of printed matter is provided by HMRC in its publication – [VAT Notice 701/10 \(Zero rating of books etc.\)](#).

The first bullet point in the list is the category of printed matter which is most commonly encountered in advertising. Leaflets, for example, are used in mediums such as point of sale, inserts, door drops and within direct mail, while booklets and brochures cover a whole host of advertising and marketing collateral.

While some items of printed matter such as leaflets are quite specifically defined, others such as pamphlets are much more open to interpretation. Many printed items are not objectively defined for VAT purposes.

Let us take the example of a letter which might typically be included in a direct mail pack. While you can look up the definition of a "letter" in a dictionary there is no legal definition of a letter for VAT purposes.

Ordinary and everyday meaning

In the absence of any legal definition we rely on the concept of the "ordinary and everyday" meaning of the word. When judging whether the items meet this meaning we should first look at the physical characteristics. If the item looks and feels like a letter, it probably is a letter.

Secondly, we look at the function of the item. A commonsense approach would be that if the item does not have the function of a letter, it cannot be a letter.

It is acknowledged that this test is subjective, however, it is the method that Her Majesty's Revenue & Customs (HMRC) would use.

This type of subjectivity can occur when something looks very much like a particular printed item but is intended

to be used like a different item of printed matter. For instance, a company maintained a database of the history of people's names. They provided the history of the name in a printed format which had many of the characteristics of a zero-rated leaflet. However, an independent tax tribunal decided that since the printed item was intended for display it was actually a standard rated poster.

The bottom line is that in instances of doubt you should either be prudent and charge VAT, or you should obtain a clearance from HMRC or professional advisors for confirmation of the correct treatment.

The package test

The "package test" is a method for determining the VAT status of packages of printed matter. It must be a package with a common link in that the items are intended to be used together. Most direct mail packs fall within the scope of the package test.

When you use the package test there are a number of stages to the process depending on the pack format:

Stage One: Assess the individual items

You should assess the VAT liability of each item in the pack to determine whether it is standard or zero rated in its own right.

Stage Two: Count the number of items

If there are more zero-rated items than standard-rated items then the mail pack is zero rated.

If there are more standard rated items than zero-rated items then the mail pack is standard rated.

If the number of zero-rated and standard-rated items are equal then a cost based test must be applied: go to stage three.

Note: The outer envelope/carrier in which the printed matter is enclosed should be EXCLUDED when counting the number of items except when making certain supplies to charities (refer to the section on Charity Relief).

Stage Three: Cost based test

If the cost of the zero-rated items is greater than the standard-rated items then the mail pack is zero rated.

If the cost of the standard-rated items is greater than the zero-rated items then the mail pack is standard rated.

Note: Your costs should be calculated fairly and you must be able to justify them. The objective of this test is to identify the relative cost of each item and then add the collective costs of the standard- and zero-rated items to determine the greater balance. Direct costs such as personalisation should be attributed only to the items to which they relate e.g. the letter.

Note : The outer envelope/carrier in which the printed matter is enclosed should be EXCLUDED when calculating costs except when making certain supplies to charities (refer to the section on Charity Relief).

Stage Four: Applying VAT on an item by item basis (optional)

If according to the package test the package is standard rated, you may choose an alternative method of assessing how much VAT to charge. The alternative method is to charge VAT on an item by item basis. In this way you account for VAT based on each individual item rather than the pack as a whole. For instance, it is advantageous to do this when the overall pack is standard rated but contains items which are zero-rated such as leaflets.

Circumstances when you may not use the Package Test

- The package contains only a single item
- The package contains a principal or significant item
- The package contains an item not made of paper or card
- You are not producing the entire package

Single item

The package test is a concession offered to the printing trade when supplying multiple items together. A single item within an outer carrier does not therefore come within the scope of this concession. If the single item is a “principal item” then refer to the section below. Otherwise, the item and the outer carrier must be assessed separately to determine their respective VAT status.

Principal or significant item

The package test is null and void if the package contains a ‘principal’ item.

A ‘principal’ item is one to which all other items in the package are ancillary, integral or incidental. In direct mail there is not usually a significant item since all the items in the pack work together to deliver the message. A fulfilment pack may contain a significant item however e.g. if you are sending out a gift in response to an application.

A mail order catalogue is normally a good example of a ‘principal’ item. Although the package containing the catalogue may also contain other promotional leaflets, these are usually ancillary or incidental to the delivery of the catalogue.

Important: when a package contains a principal item then for VAT purposes you are seen to be making a “single supply”. This means the entire package follows the VAT liability of the significant item. You do not have the choice of applying VAT on an item by item basis (Stage Four above).

Packs containing non-paper items

You cannot use the package test when dealing with packs which contain pens, badges or anything that is not printed matter. The package test is for packs consisting entirely of items printed on paper or card. When dealing with packs containing non-printed matter you apply VAT on an item by item basis.

Incomplete packs

You cannot use the package test when you are not supplying the entire package. Instead you must account for only the items you supply. Even if the finished pack would be zero rated when applying the package test, if you are only supplying standard-rated items then you must charge VAT.

Detailed information about the zero-rating of printed matter is provided by HMRC in its publication – [VAT Notice 701/10 \(Zero rating of books etc\)](#).

Single sourcing

Single sourcing is the term commonly used to describe a method for extending the scope of VAT mitigation. It maximises the opportunities for zero rating certain supplies. This is only possible where it is determined that overall the supplier is making a single supply which is zero rated.

A simple example of a single supply is purchasing a book online. The online retailer is selling you a book (which is zero rated) but in order to fulfil the order they must also organise and charge for the delivery of that book . Considered separately, the sale of the book is zero rated and the delivery charge is a standard-rated service. However for VAT purposes, this is a single supply of a book and both elements are zero rated.

The same logic can be applied to the production of printed matter for marketing purposes, for instance, a leaflet.

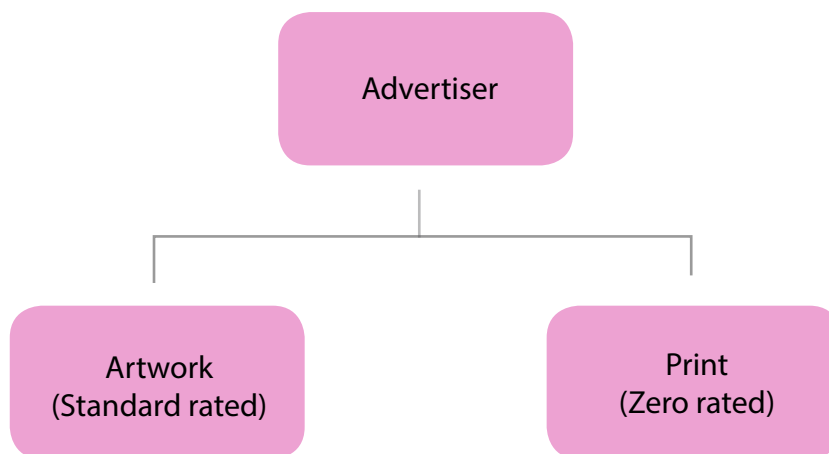
The production of the leaflet utilises a variety of goods and services to which different rates of VAT normally apply. The goods are the leaflet itself, the services may be preparatory services such as artwork and copywriting necessary to prepare the leaflet for printing.

By applying established VAT principles correctly the supply of a finished printed leaflet may be treated as a single supply of goods.

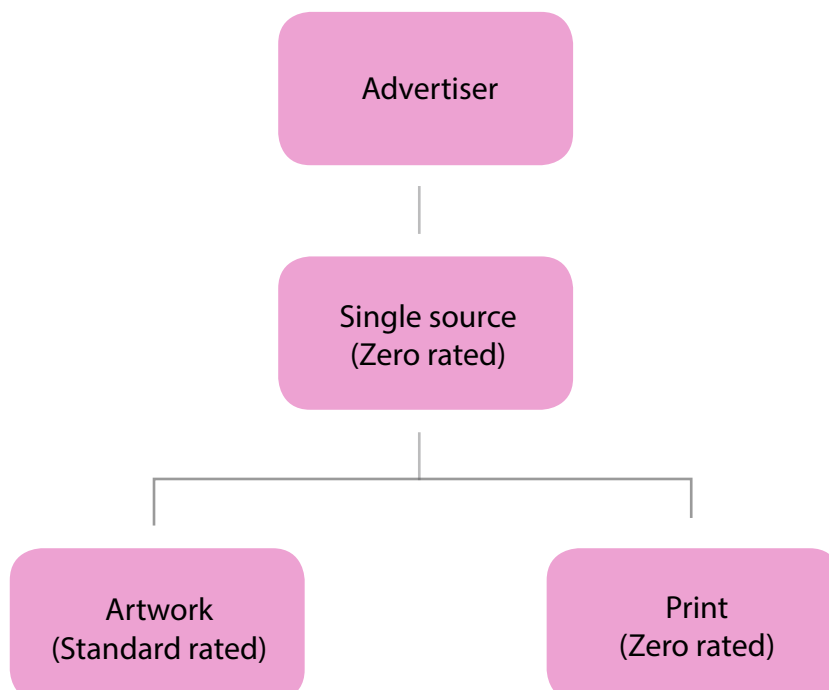
The following diagrams demonstrate the effectiveness of single sourcing using the example above:

Supply chain: Model A

In this model the advertiser has chosen to procure the leaflet by briefing separate elements of the job to individual suppliers. Each supplier must charge VAT according to the element of the job which they alone supply. In this scenario, only the printed matter is zero rated in its own right. The artwork is a supply of standard rated services.



Supply chain: Model B



In this model the advertiser has chosen to brief the entire job to a single supplier. That supplier is solely responsible for supplying both the preparatory work and the printing. This is the role an agency, printer, or print management company might typically fulfil. It does not matter if these supplies are carried out “in-house” or sub-contracted to other suppliers.

The single source supplier in this instance has determined that they are providing a single supply of zero rated goods and this will be reflected in their invoice to the advertiser. In this way, the advertiser does not pay VAT on any of the supply.

CAUTION

Care must be taken to determine what scope of goods and services can be combined together as a single supply. Just because you identify something as a single “job” does not mean that for VAT purposes it is a single supply. Likewise, it is not a single supply merely because a single invoice is issued.

As an example, preparatory work can be included in the supply of a zero rated item such as a leaflet. Art working and design costs specific to that finished leaflet may be included as part of the single supply of that leaflet. However, if a client asked you to come up with 10 different creative concepts for a leaflet, nine of which never saw the light of day, you cannot include the costs of that creative process as part of the supply of the resulting leaflet. The link between the two supplies is tenuous and not an integral part of the production of the finished leaflet.

Invoice routing

It is important to recognise the difference between single sourcing and arrangements where businesses route their invoices through one supplier to purport to be single sourcing.

An inherent weakness in this kind of “invoice routing” is that the person through whom the invoice is routed may not be the person entitled to reclaim the VAT concerned. Similarly, the person who pays the invoice may not be the person who can reclaim the VAT.

The person entitled to reclaim VAT is the person for whom the work concerned is done. For example, you could do work for a business which for some reason is to be paid for by a third party. In order to get paid you might invoice the third party. Thus the third party would have the relevant invoice and would pay it. Nevertheless the third party could not reclaim the VAT charged because your supply was to the other business.

The advice about this in HMRC’s normal guidance is as follows:

“Only the person to whom the supply was made can make a valid input tax claim. This is a fundamental principle. It overrides the question of who may have paid for the supply. It also overrides the question of who may hold the relevant invoice or other evidence....”

[VAT Input Guidance 13300 – VAT Input Tax basics: recipient of supply](#)

CAUTION

Always take professional advice before entering into invoice routing arrangements.

Splitting of supplies

HMRC has introduced anti-avoidance measures designed to counter schemes which are intended to mitigate VAT by splitting single supplies into two or more supplies.

In order to understand the remit of the measures it is helpful to examine the background to this being passed in to law.

The change in law was triggered by a scheme used by Telewest. Telewest supplied television services. It charged a fee for the television services and made customers subscribe for a magazine provided by an associated company. By stripping out the magazine from the television services they were able to zero rate the magazine. The new law is intended to prevent this and other occasions when zero rating can be gained by separating the zero and standard rated elements of a single standard rated supply.

The new law only applies when different suppliers make two separate supplies – one of printed matter and the other a service. If the two supplies are 'connected' the printed matter may not be zero rated.

Whether the supply of printed matter and the services are 'connected' depends upon the VAT status if they were to be supplied together as a single supply. If the theoretical single supply formed by delivering them together would be a standard (or 5%) rated service, the printed matter and the service are 'connected'. They are not 'connected' if the theoretical single supply would be zero rated, or a supply of goods.

In summary, the new law only applies to situations where there are two supplies which, if delivered together as a single supply, would be a standard rated service. This is a new and complicated change to VAT law. Professional advice must be taken whenever it is considered or thought the new law may apply.

Charity relief

When dealing with charities, you can take advantage of the special relief that allows certain supplies to charities to be zero rated. For the purposes of the marketing and communications industry the scope of the relief includes specified charity advertising and concessions for defined types of printed matter.

A common misconception is that anything produced for a charity is not liable to VAT. This could not be further from the truth. Charities benefit from a narrowly defined set of concessions which extend the scope of zero-rated supplies in certain circumstances but aside from that charities should be charged and pay VAT as any other business or organisation.

We should now consider the concessions available to charities.

Charity advertising

Providing the advertising is placed in a third-party medium and communicates with the general public then advertising placed on behalf of a charity may be zero rated. It does not matter whether the space is paid for or donated.

The design/production of the advert also qualifies for zero rating. This relief applies even when the advert itself (although intended) is not actually placed.

The important factor with this advertising is that it must be placed in someone else's space or time. A charity cannot benefit from zero rating on advertising in its own publications, premises or websites.

With respect to third-party advertising, guidance from HMRC states...

"The relief covers all types of advertisements on any subject, including staff recruitment. The name or logo of the charity does not need to be included for relief to be allowed. However charities are expected to only place advertisements which comply with their charitable objects. This relief does not override charity law or the need to comply with the British Codes of Advertising or any other relevant regulation."

Para 2.3 What types of advertisements does the relief cover? [HMRC Guidance Notice 701/58 Charity advertising and goods connected with collecting donations.](#)

The types of advertising which qualify for relief include:

- Space advertising
 - Adverts placed in newspapers and magazines
 - Billboards and designated advertising spaces
- Airtime advertising
 - Television
 - Cinema
 - Radio
- Online advertising
 - Adverts placed on third-party websites
 - Sponsored links (pay per click)

These are broad categories and, in practice, each supply must be judged on its own merits to verify whether it qualifies as charity advertising.

Supplies which are excluded from the relief include:

- Exhibition stands and space
- Services of distribution
- Commemorative items (e.g. pens, clothing)

Because there is a requirement to communicate with the general public, charity advertising relief does not include the targeting of selected individuals or groups, for example, people selected by individual home or business whether named or not. For this reason there is no charity advertising relief for the following types of supply:

- Email marketing
- Telemarketing
- Direct mail

There are, however, some specific “Extra statutory concessions” for printed matter which assist with VAT mitigation for direct mail activity.

Printed matter: Extra statutory concessions

To assist charities with fundraising, HMRC applies a concession allowing certain narrowly defined items of printed matter to be zero rated. As this is an extra-statutory concession, the criteria are strictly defined by HMRC. General stationery is always standard rated.

The only items of printed matter within the scope of this concession are as follows:

- Pre-printed letters (‘appeal letters’) the primary purpose of which is to appeal for money for the charity
- Envelopes used to send out appeal letters and envelopes for forwarding donations to the charity; provided each type is over-printed with an appeal request related to that contained in the letter, or are distinguishable from the charity’s usual stationery
- Collecting envelopes which ask for donations of money, and stewardship and similar envelopes used by religious and other organisations in their planned giving schemes

NOTE: A letter is not an ‘appeal letter’ unless its primary purpose is a ‘request for donations’. Due to this, not all letters intended to raise money for a charity are ‘appeal letters’. For example, a letter requesting the recipient to buy and sell lottery tickets is not an appeal letter because its primary purpose is to encourage people to participate in a lottery.

Donations for VAT purposes are sums of money ‘freely given, with nothing received in return’.

When designing envelopes ‘used to send out appeal letters and envelopes for forwarding donations’ a common oversight is to neglect to add a strap line linking the envelope to the appeal letter. Without this the envelope may not be zero rated. The purpose of this is to differentiate these envelopes from everyday stationery.

There is a limited range of other fundraising items which, by concession, may be zero rated when supplied to a charity. Again this is an extra-statutory concession which is strictly applied by HMRC.

The items to which this concession applies are as follows:

- Boxes and receptacles used for collecting money and which comply with certain design criteria. Essentially the boxes must clearly be secure collecting boxes and carry the name of the charity
- *‘...lapel stickers, emblems and badges which are to be given free as an acknowledgement to donors of money, have no intrinsic value and are low cost to the charity will qualify’* Para 8.1 What kind of lapel stickers and badges qualify? [HMRC Reference Note 701/58 Charity adverting and goods connected with collecting donations](#)

It is vitally important to comply with the conditions of each concession.

CAUTION

In instances of doubt you should always seek professional advice before zero rating your supply to the charity. More information about these reliefs is provided by HMRC in their publication – [VAT Notice 701/58 Charity Advertising and goods connected with collecting donations](#)

Applying these charity reliefs

As a supplier it is your responsibility to ensure the conditions for applying the relief are met:

- That the supply you are making comes within the scope of the relief
- You are supplying a registered charity
- You are dealing with and invoicing the charity directly (i.e. not via a third party)

Also, it is necessary to obtain a declaration from the charity which provides supporting evidence for applying the charity relief. It is best practice to obtain a declaration for each supply you make to a charity. The draft declaration is available in [VAT Notice 701/58](#). It is a two-part declaration as follows:

PART 1: to be completed by the charity

This provides evidence that you are supplying a registered charity, the details of the supply which you are making to them, and which category it comes within for relief purposes.

PART2: to be signed by the supplier

This is your signed declaration that you agree the supply to the charity comes within the category indicated in Part 1.

Supplying overseas businesses

Different regulations apply according to whether goods or services are supplied to businesses and other organisations outside the UK. The status and location of the client also affects how VAT is applied.

Services

The general rule for the export of services is that UK VAT is not chargeable when the services are supplied to a business based or belonging outside of the UK. There are variations to this.

The variations apply to a defined list of services. Two examples of supplies to which variations apply are as follows:

- Telecommunication and broadcasting services
- Transport services

This is not a complete list and professional advice should always be sought when dealing with these types of services.

Supplies to businesses in other EU states

Special rules apply to certain services supplied to business in other EU states. The services for which there are special rules are as follows:

- Electronically supplied services (e.g. website supply or hosting, software, information and making available data bases)
- Admission to cultural, educational and entertainment activities.

CAUTION

Always take professional advice when supplying these services.

In order not to charge VAT it is necessary to have confirmation that you are supplying a business client. The primary evidence of this is the client's equivalent of a VAT number. Alternative evidence is normally commercial documentation.

When invoicing without VAT it is best practice to endorse your invoice with the following:

- Where the client is "VAT" registered, the client's foreign "VAT" number, and
- the statement "Subject to the reverse charge in the country of receipt".

Your client's "VAT" number can be checked online at http://ec.europa.eu/taxation_customs/vies/vieshome.do

Supplies to businesses based or belonging outside the EU

Again it is necessary to have confirmation that you are supplying a business. This can be the client's equivalent of a VAT number or another tax reference. Otherwise normal commercial documentation must be relied upon.

Businesses with branches in the UK

The above does not apply when working for a UK branch of a foreign business. In these circumstances VAT is chargeable because the services are supplied to the UK branch.

Clients who are not businesses

You will normally be dealing with businesses but in certain circumstances this may not be the case. For example, a charity can be a "non-business" client depending on their activities.

When providing services to a non-business client belonging in another EU State, VAT is normally chargeable as it would be when the same service is supplied to a UK customer.

The same general principle applies when providing services to a non-business customer belonging outside the EU. However these clients are relieved from paying VAT on the following services:

- Transfers and assignments of copyright, patents, licences, trademarks etc
- Advertising services
- Services of consultants, engineers, lawyers etc, data processing and provision of information, (other than any services relating to land)
- Banking, financial and insurance services
- Transmission or distribution of natural gas or electricity through EU systems
- The supply of staff
- The letting on hire of goods other than means of transport
- Telecommunication services
- Radio and television broadcasting services
- Electronically supplied services

Further information about all these matters is provided by HMRC in their publication - [VAT Notice 741A Place of supply of services](#)

Goods

Knowing the location of the goods is crucial to determining what VAT should be charged. The VAT due is decided by where the goods are when delivery to the customer begins. Further considerations apply if the goods are delivered to a customer in another EU Member State or exported to a country outside the EU. Less important is where the parties to the supply might belong or by any invoicing or payment arrangements.

Zero rating goods delivered to another EU Member State

Zero rating your supply is dependent on both of the following conditions being met:

- Preparing the sales invoice correctly
- Proving that the goods left the UK for another EU Member State

Sales invoice

In addition to the normal details it is mandatory to:

- Quote the customer's VAT number; and
- Endorse the invoice "Intra-community supply subject to VAT in the country of acquisition"

Your client's "VAT" number can be checked online at http://ec.europa.eu/taxation_customs/vies/vieshome.do

Proof that the goods left the UK

A combination of these documents must be used to provide clear evidence the goods have been removed from the UK:

- The customer's order (including name, VAT number and delivery address)
- Inter-company correspondence
- Copy sales invoice
- Advice note / packing list
- Commercial transport documents from the carrier
- Details of insurance or freight charges
- Bank statements as evidence of payment
- Receipted copy of the consignment note as evidence of receipt of goods abroad
- Any other documents relevant to the removal of the goods in question

Note: photocopy certificates of shipment or other transport documents are not normally acceptable as evidence of removal unless authenticated with an original stamp and dated by an authorised official of the issuing office.

Other official forms

Other forms to be completed by businesses exporting goods to other EU Member States are as follows:

- EC Sales Lists (ESL); and
- Supplementary Statistical Declaration (SSD) or Intrastat forms if in a calendar year the value of goods exported to EU countries is more than £250,000

Further information is provided by HMRC in their publication - [VAT Notice 725 The single market](#)

Goods exports to outside the EU

Exports are only zero rated if the goods physically leave the EU. The zero rating of goods is also dependent upon proving the goods have left the EU

Proof that the goods left the EU

A combination of these documents must be used to provide clear evidence the goods have been removed from the UK:

- The customer's order (including name, VAT number and delivery address)
- Inter-company correspondence
- Copy sales invoice
- Advice note / packing list
- Commercial transport documents from the carrier
- Details of insurance or freight charges
- Bank statements as evidence of payment
- Receipted copy of the consignment note as evidence of receipt of goods abroad
- Any other documents relevant to the removal of the goods in question

Note: photocopy certificates of shipment or other transport documents are not normally acceptable as evidence of removal unless authenticated with an original stamp and dated by an authorised official of the issuing office.

Further information is provided by HMRC in their publication - [VAT Notice 703 VAT: Export of goods from the United Kingdom](#)

Postage and disbursements

Ofcom and price controls

With effect from the 2nd April 2012 price controls were removed for most Royal Mail products and services including all bulk mail products. This resulted in the products for which price controls were removed becoming liable for VAT at the standard rate.

Royal Mail products/services that are liable to VAT

- All bulk mail services: Advertising Mail, Sustainable Advertising Mail, Publishing Mail, Business Mail 1st Class and Business Mail (This applies to metered mail as well. If you're using posting services such as Business Mail using a meter, then it will be VAT liable.) Services through a standard Royal Mail Account are also liable to VAT.
- Packetpost, Packetsort, Response Services, PO Box Services
- 1st and 2nd class standard tariff account mail, automated standard tariff large letters
- Royal Mail's charges to Downstream Access operators for all services except 'standard' letters and large letters (see below).

Royal Mail services that are exempt from VAT

- Services in the Universal Service, for example: 1st and 2nd class stamped and metered mail, standard parcels, special delivery unless posted through Royal Mail Standard Account. It also includes services such as Poste Restante, non-contract international airmail and surface mail, and redirections
- Royal Mail's charges to downstream access operators for 'standard' letters and large letters only

Because of the VAT added to Royal Mail products/services, inevitably this has led to suppliers to consider options available to continue to mitigate VAT for organisations who are unable to reclaim part or all of their VAT.

Mitigating VAT liabilities through 'single sourcing'

'Single sourcing' is proposed as a way of mitigating a company's exposure to VAT liabilities. The logic is that if the mail pack is zero rated, then so too is the postage.

To determine if 'single sourcing' applies is complex and there are many factors to consider. The nature and wording of contracts, what supplies are provided and the customer's expectations can all influence whether single sourcing is a valid approach. Unfortunately there is not any information in the public domain that specifically relates to the supply of mail packs and postage as a single supply – either from HMRC's published material or the decisions of tax tribunals and courts.

Without any direct legal precedents it is not possible for the DMA to provide specific guidance and we would recommend that you seek professional advice before considering single sourcing. Any VAT arrears arising from the incorrect VAT treatment of supplies are a liability of the business that made the supply, not the client.

The Disbursement option

When 'posting your client's mail', it can be possible to pass the charge from Royal Mail on to the client without charging additional VAT. This is only beneficial if the Royal Mail service is VAT exempt, such as downstream access services.

Subject to having the correct contractual and accounting arrangements in place, postal charges can be a 'disbursement for VAT purposes'. When they are a disbursement, then the postal charges may be re-invoiced to clients at exactly the price (including any VAT charged by the postal provider) that is paid to the postal provider.

The DMA would recommend that prior to treating any recharge of postal services as a disbursement, HMRC are contacted to confirm that the treatment is correct. When the postal costs are not a disbursement, HMRC clearly states:

Strict adherence to HMRC's guidance on this topic is so important that we consider it necessary to reproduce the guidance here. This guidance is provided by HMRC in their publication [VAT Notice 700/24 Postage and delivery charges](#) as follows:

3.1 What is meant by direct mailing services?

This covers the service of posting your client's mail, for example publicity or advertising material or promotional goods.

3.2 Can I treat postal charges as disbursements?

In this section, references to "Royal Mail" include other operators licensed by Postcomm (insert by author – please note Postcomm responsibilities have now passed to Ofcom). In these circumstances you can treat Royal Mail charges as a disbursement for VAT purposes provided the following conditions are all met:

- *You meet the general disbursement requirements outlined in the section on "Supplies made by or through agents: other situations" in [VAT Notice 700 The VAT Guide](#);*
- *Your clients tell you who to send the mail to or have access to the mailing list before the mail is sent out*
- *Your responsibility for the mail ceases when it is accepted for safe delivery by Royal Mail*
- *You pass on any Royal Mail discount or rebate to your clients in full or, if you obtain the discount or rebate from posting various clients' mail at the same time, you apportion it fairly between them.*

3.3 What are disbursements?

Disbursements are fully covered in [VAT Notice 700 The VAT Guide](#). However, this section includes details of the general conditions that must be met before direct mailing charges can be treated as a disbursement. These requirements are:

- *You acted as the agent of your client when you paid Royal Mail*
- *Your client actually received the services provided by Royal Mail (this condition usually prevents your own costs being treated as disbursements for VAT purposes)*
- *Your client is responsible for paying Royal Mail*
- *Your client has authorised you to make payment on their behalf*
- *Your client knew that the services you paid for would be provided by Royal Mail*
- *Your outlay will be separately itemised when you invoice your client*
- *You recover only the exact amount which you paid to Royal Mail*
- *The services which you paid for (i.e. Royal Mail costs) are clearly additional to the supplies which you make to your client on your own account*

3.4 What if I don't meet the conditions?

If any of these conditions are not met you will be unable to treat postal charges as a disbursement. In that case they become part of your charge for the supply of direct mailing services to your customer and therefore liable to VAT. They will normally be standard rated...'

'Exact amount' to be recovered from client

In circumstances such as this, it is not allowable to add a profit margin to a disbursement or to retain any supplier discount. The amount recovered from the client must be the 'exact amount' paid to the third party providing the service concerned.

Further when VAT is charged by the third party, the 'exact amount' to be recovered from the client is the VAT inclusive amount. This VAT is not recoverable by you.

CAUTION

Before embarking on dealing with postage as a disbursement, or if already doing so, it is vital to comply with HMRC's guidance. Failure to do so can be very costly.

Administration and documentation

VAT Assessment

As a supplier you will maintain records of many aspects of the work which you carry out. This is good business practice. The same duty of care should apply to maintaining information for VAT purposes. You should have an established methodology for dealing with the VAT liability of goods and /or services provided.

Perhaps this can best be demonstrated by working through the lifecycle of a job to determine the VAT “trigger points”.

Client brief

The brief from the client details the scope of work to be undertaken. This helps in demonstrating what you as a supplier are responsible for providing. It is accepted that on many occasions you will not receive a formal written brief and it may be communicated verbally.

Even at this early stage you should be considering any VAT implications.

Quotation

It is normally possible to determine at the time of quotation the rate of VAT chargeable on the supply. In this way the client is advised at the earliest opportunity of whether the supply will be standard rated or zero rated.

In house procedure for VAT assessment

Does your organisation have an established procedure for determining the rate of VAT applicable to goods and/or services supplied? Who takes decisions and are these decisions recorded in any form? If you were asked to demonstrate how you had determined that a supply was zero rated how easy would this be to do?

All of these are indicators to a VAT inspector of whether your organisation is competently dealing with VAT matters.

Invoicing

The basic information to be shown on a VAT invoice is as follows:

- A sequential number based on one or more series which uniquely identifies the document
- The time of the supply
- The date of the issue of the document
- The name, address and registration number of the supplier
- The name and address of the person to whom the goods or services are supplied
- A description sufficient to identify the goods or services supplied
- For each description, the quantity of the goods or the extent of the services, and the rate of VAT and the amount payable, excluding VAT, expressed in any currency
- The gross total amount payable, excluding VAT, expressed in any currency
- The rate of any cash discount offered
- The total amount of VAT chargeable, expressed in sterling
- The unit price

Two further requirements that apply when supplying businesses in other EU States are as follows:

- If supplying goods to another EU State, it is necessary to quote the client's VAT number on the invoice: or
- If supplying services upon which UK VAT is not chargeable, it is necessary to endorse the invoice with the declaration 'Subject to reverse charge in the country of receipt' or a similar declaration.

CAUTION

A pitfall to be avoided when invoicing for a single supply in stages is not adequately linking the invoices concerned.

For example, the design and production of a zero-rated leaflet may be invoiced in two stages. The initial invoice is for the artwork followed by another invoice for the print.

As a standalone service, artwork charges are standard rated. If, in our example, the initial invoice merely states “artwork charges” it is not clear that this is actually the part production of a zero-rated leaflet. This lack of clarity can give rise to unnecessary questions and problems during VAT inspections.

Prepayments

Sometimes it will be necessary to ask a customer to pay in advance of work being done, for instance where you are unable to obtain credit insurance. If you receive a prepayment, you must declare any output tax due on receipt of the prepayment rather than waiting until the work and invoicing is actually done.

Swap arrangements

Sometimes two businesses enter into reciprocal arrangements where supplies are made to one another without a charge being made.

An example of this is the swapping of data, often referred to as “Swap orders”. This type of transaction is a taxable supply and you should raise a VAT invoice to the other party. Likewise they should raise a VAT invoice to you.

The value of VAT should be based on the market rate for the data as if it were being supplied normally, for instance if you normally sell data for £100/000 and you supply 10,000 names then the sale value would be £1000+VAT. It is necessary to raise an invoice to account for the VAT (£200).

HMRC consider swaps like this to be a barter arrangement for VAT purposes. How to account for VAT on barter transactions is explained in VAT notice 700 The VAT Guide paragraph 8.7 [Barter and Exchange](#)

Dealing with HMRC

From time to time you will have direct dealings with HMRC. This will be either in the form of a VAT inspection or you may need to correspond with them over a VAT matter.

VAT inspections

Officially VAT inspections are called 'assurance visits'. However, VAT inspection is the term used throughout this material.

Appointments for routine VAT inspections are arranged in advance. Businesses will normally be given at least seven days notice and every effort is made to arrange a mutually convenient date and time.

It is normal for a VAT inspection to be carried out at the principal place of business. In part this is because, visiting the principal place of business is an important detail of any VAT inspection. If the accounts and VAT records are maintained elsewhere from the principal place of business, suitable arrangements must be made for the VAT inspector to access the records and visit the principal place of business.

If mistakes are uncovered and, in the opinion of the VAT officer, more VAT is payable, the VAT officer issues an assessment to recover this tax. However, a time limit applies to routine mistakes. In such cases, the VAT inspector may not go back more than four years.

There are options when a business disputes the decision and /or assessment of the VAT officer. The business may first have the matter reviewed internally by HMRC. This review is undertaken by an officer unconnected with the VAT visit. If this doesn't resolve the matter for the business concerned, it may appeal to the independent First Tier Tax Tribunal.

Obtaining advice from HMRC

On occasion you may determine it is necessary to deal directly with HMRC for the purposes of clarification on VAT matters. These are the options available to you:

Telephone enquiries

VAT National Advice Helpline: 0845 010 9000 (available 8am – 8pm Monday to Friday)

The helpline is there to assist with common VAT queries. Such advice is unlikely to be binding on the part of HMRC. For peace of mind you should seek advice from a qualified advisor or obtain a clearance from HMRC.

Charities Helpline: 0845 302 0203 (available 8am – 5pm Monday to Friday)

For VAT matters specific to charities such as advice on VAT reliefs you can call this helpline.

Email Enquiries

Where possible, HMRC strongly recommends that you submit your questions about VAT by secure email rather than by post. HMRC can reply to your enquiry more quickly this way. You need to go to the relevant web page to submit your secure email as follows:

- For general enquiries [go here](#)
- If you are a charity with a VAT enquiry [go here](#)
- If you are a business making supplies to charities [go here](#)

Postal enquiries

Only particularly long questions or those where you need to attach something should be sent by post. For postal enquiries you should send correspondence to the following address:

HM Revenue & Customs
Written Enquiries Section

Obtaining a clearance from HMRC

HMRC will respond to all written enquiries, however, the answer may be limited to directing the enquirer to some already available information.

If, in their view, the answer to your question is already covered in their published guidance, they will reject your request for further clarification or help. Instead they will refer you to the relevant guidance. This is not helpful but it is a reality. HMRC will only provide further clarification or a clearance when they can be persuaded that there is 'material uncertainty' about matter concerned.

CAUTION

You should be aware that there are several circumstances when a written response will not be binding on HMRC. Most commonly this happens when they consider they did not receive all the relevant information or details. About this, HMRC says that '*...for information or advice you have received to be considered binding on HMRC, ...you must set out all the relevant facts and draw attention to all the issues.*' Professional help will help you avoid this happening.

Further advice and support

DMA VAT Helpdesk

Together with Zero VAT, the DMA operates a helpdesk for its members who need help on VAT issues. Please contact the DMA's Legal and Compliance team on 0207 291 3360 or email: legaladvice@dma.org.uk should you have a VAT-related query.

Fair Usage policy/ extent of advice

The DMA and Zero VAT are able to answer queries relating to VAT issues and provide non-binding guidance and support for DMA members. This may not include certain VAT or legal advice and/or representation which would constitute professional advice. You may enter into a separate commercial arrangement directly with Zero VAT for paid professional advice as appropriate.

HMRC Notices

The following HMRC Notices contain information relevant to our industry:

- [Notice 700](#) – The VAT Guide
- [Notice 701/10](#) – Zero rating of books etc
- [Notice 701/58](#) – Charity advertising and goods connected with collecting donations
- [Notice 700/24](#) – Postage and delivery charges
- [Notice 741A](#) – Place of supply of services
- [Notice 703](#) – Export of goods from the United Kingdom
- [Notice 725](#) – The single market

These notices are updated from time to time. You should ensure you are referring to the latest version.

Frequently asked questions

One of my suppliers has given me advice on VAT. Can I rely on this advice?

Your supplier may have provided you with advice in good faith and to the best of their knowledge. They may even have correspondence from HMRC (a clearance) backing up their advice. Such clearances however only cover the business to whom they were issued. It is essential that you obtain your own advice since your business alone is responsible for the correct treatment of VAT.

I phoned the National Advice Helpline and they gave me some advice. Is this advice binding on their part?

The helpline is there to assist with common VAT queries. The operators are working to a script to a large extent and it is not within their remit to deal with technically complex VAT matters. Such advice is unlikely to be binding on the part of HMRC. However, always be sure to obtain a call reference number from the advisor concerned. For peace of mind you should seek advice from a qualified advisor or obtain a clearance from HMRC.

I wrote to HMRC's Written Enquiries Section to seek clarification. Why didn't they provide me with an answer?

HMRC should respond to all written enquiries, however, they are not obliged to give you an answer. If, in their view, the answer to your question is already covered in their published guidance, they will reject your request for further clarification or help. Instead they will refer you to the relevant guidance. This is not helpful but it is a reality. HMRC will only provide further clarification or a clearance when they can be persuaded that there is 'material uncertainty' about matter concerned.

Is HMRC always bound by any further clarification which they provide?

No. There are several circumstances when the further clarification or ruling will not be binding on HMRC. Most commonly this happens when they consider they did not receive all the relevant information or details. About this, HMRC says that '...for information or advice you have received to be considered binding on HMRC, ...you must set out all the relevant facts and draw attention to all the issues.' Professional help will help you avoid this happening.

A competitor of mine is zero rating a supply which I understand is standard rated. How can this be?

There are a number of reasons why this anomaly might exist. Firstly, your competitor may be incorrect because they have misunderstood the rules or they may be simply breaking the rules in order to win the work. Or they may have obtained a clearance from HMRC and are perfectly legitimately zero rating the supply. There are many grey areas in VAT and much of the guidance is subjective. Two people could interpret the same issue differently.

I have a charity client who has told me they do not pay VAT on anything because of their charitable status. Is this correct?

There is no general relief from VAT for charities. Mostly a charity should be charged VAT like any organisation or business. However, there are defined concessions applying to charity advertising and certain printed matter used for appeals. Always check or take advice about this when dealing with a charity as there is also additional paperwork which you need to maintain when applying the concessions.

Am I right in thinking that there are different VAT rules governing supplies made to businesses outside the UK?

Yes. There are different VAT rules for overseas customers. A common mistake is to presume that the VAT liability is determined by where the work is done. There are some services to which this applies but mostly VAT is due according to the location of the customer and, when dealing with goods, to where the goods are delivered.

I already know the VAT rules, should I use a professional VAT advisor?

Many DMA members are already VAT knowledgeable and have a fair understanding of the principles of zero-rating but certainly many are not "experts" in VAT law nor do they have ready access to tribunals, case studies and other factors which go beyond the information readily available in the public domain.

Full time, qualified taxation specialists can offer a higher level of expertise and a wider knowledge base backed up by Professional Indemnity Cover which will offer you a greater level of protection than "going it alone".